PERAC AUDIT REPORT

Holyoke Retirement System

JAN. 1, 2012 - DEC. 31, 2014

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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February 3, 2016

The Public Employee Retirement Administration Commission has completed an examination of the Holyoke Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson and Harold Chadwick who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Regular Compensation:

There are five codes used by the police department that have retirement contributions withheld although they do not meet the definition of regular compensation. All of these codes are paid for hours above the normal 40 hour per week schedule. These are excluded from being regular compensation due to 840 CMR 15.03 3(f) which states that overtime is not considered "wages."

Recommendation: The payroll department should be instructed to end withholding contributions on these codes. The Board should refund any contributions received in error.

2. Ineligible Retiree:

The sample of new retirees reviewed included one retiree who is not eligible to receive a benefit. This individual first joined the Holyoke Retirement System on August 18, 1978. A refund of the accumulated deductions was issued on October 8, 1986. Membership was reestablished November 26, 1991, and a second refund was issued June 16, 1999. The member's third period of active membership started June 7, 2010 and ended October 8, 2010. In 2011 the member re-deposited both refunds and received 14 years and 2 months of service. In 2013 the member retired at the age of 60 with 14 years and 6 months.

M.G.L. c. 32, §3(6)(e) states "Anything in sections one to twenty-eight inclusive to the contrary notwithstanding, no person who becomes a member under subdivision (3) of this section, and <u>no member who is reinstated</u> to or who re-enters active service as provided for in paragraph (b), (c) or (d) of this subdivision, or who transfers or re-establishes his membership as provided for in subdivision (8) of this section, <u>shall be eligible to receive a superannuation retirement allowance</u>, an ordinary disability retirement allowance or a termination retirement allowance unless and <u>until he shall have been in active service for at least two consecutive years</u>, …" (emphasis added)

Since this member did not work two years after the third establishment of membership, this section prohibits collecting a retirement allowance.

Recommendation: The member's retirement allowance must stop immediately. The options available to this member are to take a refund of the remaining balance of accumulated deductions minus total pension payments, or to return to work long enough to be eligible to retire.

3. Travel Expenses

There were two occasions when duplicate checks were created for travel expenses that had already been reimbursed.

There were several travel reimbursements that were paid out even though no official travel reimbursement form had been included.

Recommendation: Although neither duplicate check was cashed, the process needs to be re-examined to ensure this does not reoccur.

Pursuant to the Board's own travel regulations, all expenses submitted for reimbursement should be accompanied by the Board's Travel Reimbursement Form.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

FINAL DETERMINATION:
PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2014	2013	2012
Net Assets Available For Benefits:			
Cash	$2,738,783	$3,826,502	$1,290,105
Pooled Domestic Equity Funds	88,256,075	73,227,026	65,263,855
Pooled International Equity Funds	44,789,424	50,843,413	41,357,586
Pooled Domestic Fixed Income Funds	32,678,714	27,056,244	26,690,026
Pooled Alternative Investment Funds	35,736,601	37,921,586	28,895,729
Pooled Real Estate Funds	27,092,219	21,279,648	16,435,601
Hedge Funds	2,158,090	8,269,014	7,347,562
Accounts Receivable	9,802,891	8,478,540	8,404,819
Accounts Payable	(14,232)	(32,659)	(5,988)
Total	$243,238,563	$230,869,315	$195,679,294
Fund Balances:			
Annuity Savings Fund	$53,921,425	$53,316,056	$51,982,292
Annuity Reserve Fund	19,528,017	18,839,133	18,003,524
Pension Fund	7,165,056	7,346,811	7,461,505
Military Service Fund	91,844	85,798	85,712
Expense Fund	0	0	0
Pension Reserve Fund	162,532,221	151,281,517	118,146,262
Total	$243,238,563	$230,869,315	$195,679,294

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	$49,865,539	$18,208,695	$7,992,178	$82,396	$0	$94,375,357	$170,524,166
Receipts	5,342,064	538,781	16,613,296	3,316	1,388,552	25,415,929	49,301,938
Interfund Transfers	(2,227,130)	2,222,437	1,649,718	0	0	(1,645,024)	0
Disbursements	(998,181)	(2,966,389)	(18,793,687)	0	(1,388,552)	0	(24,146,810)
Ending Balance (2012)	51,982,292	18,003,524	7,461,505	85,712	0	118,146,262	195,679,294
Receipts	5,546,149	553,958	16,951,923	86	2,116,179	35,628,866	60,797,162
Interfund Transfers	(3,425,812)	3,414,965	2,504,458	0	0	(2,493,611)	0
Disbursements	(786,573)	(3,133,314)	(19,571,075)	0	(2,116,179)	0	(25,607,141)
Ending Balance (2013)	53,316,056	18,839,133	7,346,811	85,798	0	151,281,517	230,869,315
Receipts	5,437,095	582,093	17,558,435	8,557	2,373,327	13,970,708	39,930,215
Interfund Transfers	(3,494,807)	3,485,225	2,732,096	(2,511)	0	(2,720,003)	0
Disbursements	(1,336,919)	(3,378,435)	(20,472,285)	0	(2,373,327)	0	(27,560,966)
Ending Balance (2014)	$53,921,425	$19,528,017	$7,165,056	$91,844	$0	$162,532,221	$243,238,563

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2014	2013	2012
Annuity Savings Fund:			
Members Deductions	$5,096,852	$5,164,561	$5,004,991
Transfers from Other Systems	159,165	229,020	120,643
Member Make Up Payments and Re-deposits	20,534	23,114	24,371
Member Payments from Rollovers	83,750	66,881	123,122
Investment Income Credited to Member Accounts	76,795	62,574	68,937
Sub Total	5,437,095	5,546,149	5,342,064
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	582,093	553,958	538,781
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	184,686	177,561	172,890
Received from Commonwealth for COLA and Survivor Benefits	239,213	294,313	331,067
Pension Fund Appropriation	17,121,406	16,480,049	16,089,569
Settlement of Workers' Compensation Claims	6,600	0	19,770
Recovery of 91A Overearnings	6,530	0	0
Sub Total	17,558,435	16,951,923	16,613,296
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	8,471	0	3,234
Investment Income Credited to the Military Service Fund	86	86	82
Sub Total	8,557	86	3,316
Expense Fund:			
Investment Income Credited to the Expense Fund	2,373,327	2,116,179	1,388,552
Pension Reserve Fund:			
Federal Grant Reimbursement	22,376	22,345	25,405
Interest Not Refunded	5,976	540	3,232
Miscellaneous Income	0	0	5,179
Excess Investment Income	13,942,355	35,605,981	25,382,113
Sub Total	13,970,708	35,628,866	25,415,929
Total Receipts, Net	$39,930,215	$60,797,162	$49,301,938

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31, 2014	2013	2012
Annuity Savings Fund:			
Refunds to Members	$872,119	$604,708	$884,148
Transfers to Other Systems	464,800	181,865	114,033
Sub Total	1,336,919	786,573	998,181
Annuity Reserve Fund:			
Annuities Paid	3,349,776	3,098,962	2,876,059
Option B Refunds	28,659	34,352	90,331
Sub Total	3,378,435	3,133,314	2,966,389
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	16,065,772	15,202,695	14,441,875
Survivorship Payments	345,898	368,814	383,108
Ordinary Disability Payments	223,751	198,289	202,304
Accidental Disability Payments	2,303,123	2,312,714	2,241,664
Accidental Death Payments	751,873	815,496	861,918
Section 101 Benefits	144,307	153,100	158,475
3 (8) (c) Reimbursements to Other Systems	637,561	519,967	504,343
Sub Total	20,472,285	19,571,075	18,793,687
Expense Fund:			
Board Member Stipend	11,750	12,000	12,000
Salaries	266,663	238,115	238,173
Legal Expenses	32,569	36,269	26,578
Medical Expenses	0	0	100
Travel Expenses	12,698	5,197	7,368
Administrative Expenses	56,061	51,203	37,560
Professional Services	7,500	0	0
Actuarial Services	27,500	4,667	27,500
Accounting Services	400	2,000	2,400
Education and Training	6,325	2,860	3,125
Furniture and Equipment	3,898	0	0
Management Fees	1,883,780	1,686,723	976,043
Consultant Fees	20,000	35,000	16,667
Service Contracts	28,361	27,079	25,993
Fiduciary Insurance	15,822	15,066	15,046
Sub Total	2,373,327	2,116,179	1,388,552
Total Disbursements	$27,560,966	$25,607,141	$24,146,810

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2014	2013	2012
Investment Income Received From:			
Cash	$24,275	$16,299	$10,443
Pooled or Mutual Funds	1,748,822	2,837,964	1,446,059
Commission Recapture/Securities Litigation	26	310	182
Total Investment Income	1,773,122	2,854,573	1,456,684
Plus:			
Realized Gains	2,482,969	1,875,624	645,952
Unrealized Gains	35,345,213	44,626,058	42,251,410
Sub Total	37,828,183	46,501,682	42,897,362
Less:			
Realized Loss	(884,743)	(781,144)	(1,739,547)
Unrealized Loss	(21,741,907)	(10,236,334)	(15,236,033)
Sub Total	(22,626,650)	(11,017,478)	(16,975,580)
Net Investment Income	16,974,656	38,338,777	27,378,466
Income Required:			
Annuity Savings Fund	76,795	62,574	68,937
Annuity Reserve Fund	582,093	553,958	538,781
Military Service Fund	86	86	82
Expense Fund	2,373,327	2,116,179	1,388,552
Total Income Required	3,032,300	2,732,797	1,996,353
Net Investment Income	16,974,656	38,338,777	27,378,466
Less: Total Income Required	3,032,300	2,732,797	1,996,353
Excess Income (Loss) To The Pension Reserve Fund	$13,942,355	$35,605,981	$25,382,113

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2014	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$2,738,783	1.2%
Pooled Domestic Equity Funds	88,256,075	37.8%
Pooled International Equity Funds	44,789,424	19.2%
Pooled Domestic Fixed Income Funds	32,678,714	14.0%
Pooled Alternative Investment Funds	35,736,601	15.3%
Pooled Real Estate Funds	27,092,219	11.6%
Hedge Funds	2,158,090	0.9%
Grand Total	$233,449,905	100.0%

For the year ending December 31, 2014, the rate of return for the investments of the Holyoke Retirement System was 7.37%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Holyoke Retirement System averaged 11.94%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Holyoke Retirement System was 9.57%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Holyoke Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

January 11, 2011
Regulation Number 19.01(8): Notwithstanding the provisions of 840 CMR 19.01(8), the Holyoke Retirement Board is authorized to invest up to 10% of its portfolio in private equity.

December 15, 2010
Regulation Number 21.01(2)(3): The Holyoke Retirement Board is authorized to invest in Schroders New Finance Capital's Opus Commodities Core Plus A Fund. Exchange-traded futures contracts will be used by both SNFC's internal managers and external managers in the implementation of the fund's strategy. Use of shorting for relative-value trading is also permitted. Some of the external managers in this Fund may be characterized as hedge funds but since the overall strategy of this Fund is that 100% of its return is explainable by movements in the DJ-UBS commodity index, PERAC's hedge fund guidelines will not apply to this investment.

November 30, 2010
Regulation Number 21.01(2)(3): The Holyoke Retirement Board is authorized to invest in the INVESCO Balanced-Risk Commodity Strategy. This strategy employs exchange-traded futures contracts in the implementation of its goals. Short positions may be taken in some futures contracts as part of tactical or relative-value trading strategies.

October 22, 2009
Regulation Number 16.04: Notwithstanding the provisions of 840 CMR 16.04, or any other general or special law or regulation, the Holyoke Retirement Board may invest the assets of the Holyoke Retirement System without designating a custodian of said assets under the following terms and conditions:

1. The assets of the Holyoke Retirement System are invested solely in pooled/commingled investment vehicles, and
2. A commercial bank or savings bank approved by PERAC is retained to assist the Holyoke Retirement Board with cash management

March 2, 2007
Regulation Number 16.08: The Holyoke Retirement Board is authorized to invest in the Fidelity Real Estate Growth Fund III, now run under the umbrella of Pyramis Global Advisors Trust Company. The Board has been a satisfied investor in a predecessor Fidelity Real Estate Growth Fund, and the strategy and the portfolio management team are essentially the same. The Board has received over 100% of its original investment back from Fidelity (Pyramis) and is pursuing this investment in order to maintain its allocation to real estate. The manager has submitted the required regulatory documents.

February 14, 2007

Regulation Number 17.03: Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Holyoke Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

February 13, 2007

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Holyoke Retirement Board may invest funds of the Retirement System (the "System") in the fund known as INVESCO Core Real Estate USA, LLC (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualified as a "venture capital operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

September 22, 2003

Regulation Number 16.08: In accordance with Investment Guideline 99-2, the Holyoke Retirement Board is authorized to make a minor modification to its large cap growth equity account with Freedom Capital Management Company. The mandate is switching from a separate account to a commingled fund, the Freedom Large Cap Growth Fund. There is no change in strategy or in the portfolio management team, and total management costs are expected to be lower.

July 18, 2003

Regulation Number 16.08: In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to make a modest modification to its domestic equity management mandates with Freedom Capital Management. The Board already has large cap value, large cap growth, and "equity style" mandates with Freedom Capital Management and has voted to make an initial investment in Freedom Capital Management's Style Weighted Concentrated Fund. This investment will allow the Board to meet its asset allocation target for large cap equities. In this new fund, which has the S&P 500 as its benchmark, Freedom Capital Management will select its best ideas on both growth and value stocks out of the large cap universe in which it currently operates.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

August 8, 2001

Regulation Number 16.08: In accordance with PERAC Investment Guideline 99-2, the Holyoke Retirement Board is authorized to modify its large cap equity mandate with Freedom Capital Management by transferring the value portion of the account from a separately managed fund to a commingled fund, the Freedom Large Cap Value Fund. There is no change in investment strategy or benchmark and the modification is expected to result in lower costs to the Holyoke Retirement Board.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Holyoke Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or

- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or

- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or

- attainment of age 55 with 10 years of service if classified in Group 2, or

- attainment of age 55 if classified in Group 4.

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $821.52 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $821.52 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of $150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an internal CIO to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Holyoke Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Membership
August 23, 2010
A member of the System who is employed on a full-time basis in the Holyoke School Department is a clerical position or as a paraprofessional who is not eligible for membership in the Mass Teachers' Retirement System shall be credited with a full year creditable service for each academic year. However, in no case should more than 12 months creditable service be granted in one calendar year. If a transfer is made to a full-time position in another City department, School Department service will be prorated.

For the purpose of computing partial or pro rata membership service, full-time credit shall be considered to be 260 work days at 7 hours per day, or 1820 hours per annum.

Appointed Officials
Members of boards and commissions are not eligible for membership in the System unless otherwise specifically allowed under Chapter 32.

May 29, 2007
Any Full-time employee, who is a member of the Holyoke Retirement System, is eligible to purchase previous seasonal, temporary or provisional service rendered for any governmental unit belonging to the Holyoke Retirement System.

Membership Teacher Aides
March 11, 1986
Who work a minimum of Twenty (20) hours per week and are under the age of 65, shall become members of the Retirement System.

Employees that have worked under the CETA program or Teacher Aides are not eligible for membership in the Retirement System; however, if the employee gains employment in any other qualified position; they may buy back this other time.

Unless otherwise specified employees must work twenty (20) hours per week to be eligible for membership

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Creditable Service:
October 1, 2002
Retirement Credit for Service Rendered as a Part-Time Employee

1. A member whose entire service is in a part-time position shall receive one year of creditable service for each year worked, provided the member works the number of hours required by the position.

2. A member employed on a part-time basis who becomes full- time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.

3. A member employed of a full- time basis who becomes part-time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.

Buy-Backs:
July 1, 1997
Any full-time employee, who is a member of the retirement system, is eligible to purchase previous seasonal, temporary or provisional service rendered for any governmental unit belonging to the system.

Miscellaneous - Contractual Services
August 23, 2010

Any person hired by any of the System's governmental units on a contractual basis to provide services in a position which has not been included in its operating budget or organizational chart shall not be eligible to become a member of the System.

Contract service providers are ineligible for membership in the System.

Contract service providers are not eligible to receive creditable service for such periods in which services were provided, subsequent to establishing membership in the System.

Compensation paid for such services during such periods shall not be utilized in retirement computations.

In determining whether service is rendered as an employee or an independent contractor for the purposes of this Rule, the Board will consider various factors including, but not limited to:

- whether services were provided for an indefinite period of time or for a specific period of time under a contract;
- whether the service provider was eligible for employment benefits such as sick leave, vacation and health insurance;
- whether the service provider received a W-2 form or a 1099 form;

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- whether the service provider worked during regular business hours;
- whether services were performed at the employer's premises;
- whether the service provider utilized his or her own tools and equipment:
- whether the service provider was required to submit time billings and statements of services rendered; and,
- whether the service provider was subsequently hired as a permanent employee with retirement membership for the same work for which the employee seeks creditable service.

Section 90C and 90D:
March 11, 1986
Section 90C and 90D adjustments shall be granted as of July 1 of each year in lieu of COLA's. Qualified retirees get whichever is greater.

Travel Regulations:
November 29, 2005
The Holyoke Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website http://www.mass.gov/perac/Holyoke.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Bellamy H. Schmidt		
Appointed Member:	Vacant		
Elected Member:	Daniel R. Owens	Term Expires:	06/30/17
Elected Member:	John T. McCarthy	Term Expires:	01/02/17
Appointed Member:	Michele Aubrey	Term Expires:	02/04/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of $1,000,000 with a $10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of $50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Segal Consulting as of January 1, 2014.

The actuarial liability for active members was	$153,071,817
The actuarial liability for inactive members was	2,499,867
The actuarial liability for retired members was	210,054,102
The total actuarial liability was	$365,625,786
System assets as of that date were (actuarial value)	212,536,626
The unfunded actuarial liability was	$153,089,160
The ratio of system's assets to total actuarial liability was	58.1%
As of that date the total covered employee payroll was	$57,502,791

The normal cost for employees on that date was	9.4% of payroll
The normal cost for the employer (including administrative expenses) was	4.7% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.75% per annum
Rate of Salary Increase:	Varies by group and service

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retirement in Past Years										
Superannuation	18	16	25	27	25	32	46	31	36	40
Ordinary Disability	1	1	1	2	1	1	0	1	1	1
Accidental Disability	2	1	6	5	4	3	3	3	2	1
Total Retirements	21	18	32	34	30	36	49	35	39	42
Total Retirees, Beneficiaries and Survivors	931	916	904	902	896	892	917	923	926	930
Total Active Members	1,305	1,293	1,254	1,237	1,205	1,218	1,240	1,280	1,252	1,148
Pension Payments										
Superannuation	$11,940,882	$12,062,049	$12,181,189	$12,412,605	$12,798,806	$13,316,877	$13,911,602	$14,441,875	$15,202,695	$16,065,772
Survivor/Beneficiary Payments	313,551	309,486	304,746	337,057	358,467	396,358	404,674	383,108	368,814	345,898
Ordinary Disability	138,254	142,459	132,888	176,930	176,012	210,585	205,149	202,304	198,289	223,751
Accidental Disability	1,722,438	1,853,698	1,798,095	1,927,924	2,030,012	2,060,071	2,333,415	2,241,664	2,312,714	2,303,123
Other	957,994	1,365,473	1,400,176	1,271,062	1,582,491	1,557,351	1,476,214	1,524,736	1,488,563	1,533,741
Total Payments for Year	$15,073,119	$15,733,165	$15,817,094	$16,125,578	$16,945,788	$17,541,242	$18,331,054	$18,793,687	$19,571,075	$20,472,285

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